



AUDITOR - GENERAL
SOUTH AFRICA

The accounting officer
Elias Motsoaledi Local Municipality
PO Box 48
Groblersdal
0470

30 November 2017

Reference: 02734REG16-17

Dear Madam

Report of the Auditor-General on the financial statements and other legal and regulatory requirements of Elias Motsoaledi Local Municipality for the year ended 30 June 2017

1. The above-mentioned report of the Auditor-General is submitted herewith in terms of section 21(1) of the Public Audit Act of South Africa read in conjunction with section 188 of the Constitution of the Republic of South Africa section 121(3) of the Municipal Finance Management Act of South Africa (MFMA).
2. In terms of section 121(3) of the MFMA you are required to include the audit report in the municipality's annual report to be tabled.
3. Until the annual report is tabled as required by section 127(2) of the MFMA the audit report is not a public document and should therefore be treated as confidential.
4. Prior to printing or copying the annual report which will include the audit report you are required to do the following:
 - Submit the final printer's proof of the annual report to the relevant senior manager of the Auditor-General of South Africa for verification of the audit-related references in the audit report and for confirmation that the financial statements and other information are those documents that have been read and audited. Special care should be taken with the page references in your report, since an incorrect reference could have audit implications.
 - The signature *Auditor-General* in the handwriting of the auditor authorised to sign the audit report at the end of the hard copy of the audit report should be scanned in when preparing to print the report. This signature, as well as the place and date of signing and the Auditor-General of South Africa's logo, should appear at the end of the report, as in the hard copy that is provided to you. The official logo will be made available to you in electronic format.
5. Please notify the undersigned Senior Manager well in advance of the date on which the annual report containing this audit report will be tabled.
6. Your cooperation to ensure that all these requirements are met would be much appreciated.

Kindly acknowledge receipt of this letter.

Yours sincerely

A handwritten signature in black ink, appearing to be 'Rabelani Muligwe', written over a circular stamp or seal.

Rabelani Muligwe
Senior manager: Limpopo

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Auditor's report

Elias Motsoaledi Local Municipality

30 June 2017

Report of the auditor-general to the Limpopo provincial legislature and the council of Elias Motsoaledi Local Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the Elias Motsoaledi Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2017, and the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of my report, the financial statements present fairly, in all material respects, the financial position of the Elias Motsoaledi Local Municipality as at 30 June 2017, and its financial performance and cash flows for the year then ended in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA).

Basis for qualified opinion

Property rates

3. The municipality did not accrue for revenue on all properties in the municipality's jurisdiction. I identified properties indicated as unknown in the underlying accounting records for which the municipality did not fully assess the ownership. I was unable to determine the full extent of the understatement of revenue from property rates stated at R25 814 661 (2015-16: R28 280 202), receivables from non-exchange stated at R19 547 729 (2015-16: R3 990 888) and related disclosures in the annual financial statements as it was impracticable to do so. Additionally, there is a resultant impact on the accumulated surplus and I was unable to determine the effect of the unknown properties on property plant and equipment and/ or investment property.

VAT Receivable

4. The municipality did not review and clear VAT control accounts timeously with SARS assessments, interests and penalties, refunds and journals in accordance with GRAP 1, *Presentation of financial statements*. In addition the municipality did not maintain adequate records of these reconciling items. I could not confirm the balance by alternate means. I was unable to determine whether any adjustments to the VAT Receivable stated at R21 742 970 (2015-16: R11 514 853) in the financial statements were necessary.

Payables from exchanged transaction

5. I was unable to obtain sufficient appropriate audit evidence for payables from exchanged transaction due to the poor status of the accounting records. I was unable to confirm the

payables from exchanged transaction by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to payables from exchanged transaction stated at R65 095 088 in the financial statements.

Lease rentals on operating lease

6. I was unable to obtain sufficient appropriate audit evidence that lease rentals on operating leases for the current period has been correctly classified in terms of GRAP 13 *Leases*. As described in note 36 to the financial statements, the leases could not be substantiated by supporting audit evidence. I was unable to confirm the classification of leases by alternative means. Consequently, I was unable to determine whether any adjustment to lease rentals on operating leases stated at R7 630 970 in the financial statements was necessary.

Receivables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for recognition of receivables relating to the recovery of the fruitless and wasteful expenditure identified in the prior year, as the municipality did not have adequate systems in place to determine the recoverable amount. I was unable to confirm the receivable by alternative means. Consequently, I was unable to determine whether any further adjustments were necessary to the receivables from exchange transactions stated at R712 382 (2015-16: R1 516 501) in note 10 to the financial statements were necessary. There is a resultant impact on the surplus for the year.

Irregular expenditure

8. The municipality made payments in contravention of the supply chain management requirements, resulting in irregular expenditure of R48 171 383 (2015-16: R64 948 315). As the municipality did not implement and maintain an appropriate procurement and provisioning system which is fair, equitable, transparent, competitive and cost-effective, I was unable to determine the full extent of the understatement by alternative means. Consequently, I was unable to determine whether any further adjustments relating to irregular expenditure disclosed at R199 674 649 (2015-16: R135 139 646) disclosed in note 47 to the financial statements, were necessary.

Context for the opinion

9. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of my report.
10. I am independent of the municipality in accordance with the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* (IESBA code) together with the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA code.
11. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

12. I draw attention to the matters below. My opinion is not modified in respect of these matter.

Restatement of corresponding figures

13. As disclosed in note 41 to the financial statements, the corresponding figures for 30 June 2016 have been restated as a result of errors discovered during 2017 in the financial statements of the municipality at, and for the year ended, 30 June 2016.

Material loss– consumer debtors

14. As disclosed in note 33 to the financial statements, material losses to the amount of R43 751 209 were incurred as a result of a write-off of irrecoverable consumer debtors.

Investment property fair value adjustment

15. As disclosed in note 3 to the financial statements, a fair value loss to the amount of R40 411 043 was incurred, as a result of an adjustment to the municipality's investment properties.

Unauthorised expenditure

16. As disclosed in note 45 to the financial statements, unauthorised expenditure to the amount of R80 123 905 was incurred, as the total amount appropriated in the municipality's approved budget has been overspent.

Other matters

17. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Unaudited disclosure notes

18. In terms of section 125(2)(e) of the MFMA the municipality is required to disclose particulars of non-compliance with the MFMA. This disclosure requirement did not form part of the audit of the financial statements and accordingly I do not express an opinion thereon.

Responsibilities of the accounting officer

19. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2016 (Act No. 3 of 2016) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
20. In preparing the financial statements, the accounting officer is responsible for assessing the Elias Motsoaledi Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the accounting officer either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

21. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
22. A further description of my responsibilities for the audit of the financial statements is included in the annexure to the auditor's report.

Report on the audit of the annual performance report

Introduction and scope

23. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof I have a responsibility to report material findings on the reported performance information against predetermined objectives for selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
24. My procedures address the reported performance information, which must be based on the approved performance planning documents of the Municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
25. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the following selected objectives presented in the annual performance report of the Municipality for the year ended 30 June 2017:

Objectives	Pages in the annual performance report
Basic service delivery and infrastructure development	29, 30 and 35
Spatial development analysis and rationale	29 – 34
Local Economic Development	30- 31 and 49

26. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.

27. The material findings in respect of the usefulness and reliability of the selected objectives are as follows:

Basic service delivery and infrastructure development

Percentage of (indigents) households with access to free basic electricity services by 30 June 2017 (GKPI)

28. The planned achievement for 2.5% of Percentage of (indigents) households with access to free basic electricity was misstated as the evidence provided indicated 19.37% and not 17% as reported.

Speed calming measures via speed camera law enforcement.

29. The planned achievement of 40 speed calming measures via speed camera law enforcement was misstated as the evidence provided indicated 481 and not 456 as reported.

Percentage of households with access to basic levels of electricity by 30 June 2017

30. I was unable to obtain sufficient appropriate audit evidence for the planned achievement of 100% provision of access to basic level of electricity. This was due to non-submission of the portfolio of evidence. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 99%.

Percentage of INEP funding by 30 June 2017

31. The planned achievement for 100% of Percentage of INEP funding was misstated as the evidence provided indicated 190% and not 99% as reported

Percentage of new capital projects completed for EMLM funded projects

32. The planned achievement for 100% of new capital projects completed for EMLM funded projects was misstated as the evidence provided indicated 95% and not 90% as reported.

Percentage capital budget spend in terms of new IDP identified projects by 30 June 2017

33. The planned achievement for 100% of Percentage capital budget spend in terms of new IDP identified projects by 30 June 2017 was misstated as the evidence provided indicated 92% and not 73% as reported

Percentage of households with access to a minimum level of basic waste removal by 30 June 2017 (Once per week) (GKPI)

34. The planned achievement for 20% of Percentage of (indigents) households with access to free basic electricity was misstated as the evidence provided indicated 9% and not 16.5% as reported.

Percentage of new Capital projects started on time in terms of the appointment of consultants/ contractors for EMLM funded projects as per the Capital implementation plan

35. I was unable to obtain sufficient appropriate audit evidence for the planned achievement of 100% new Capital projects started on time in terms of the appointment of consultants/ contractors for EMLM funded projects as per the Capital implementation plan. This was due to zero weighting (not reporting) the indicator. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 0%.

Number of law enforcement operations at hotspots

36. I was unable to obtain sufficient appropriate audit evidence for the planned achievement of 192 number of law enforcement operations at hotspots. This was due to zero weighting (not reporting) the indicator. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 0%.

Installation of license plate recognition cameras to monitor offenders

37. I was unable to obtain sufficient appropriate audit evidence for the planned achievement of 8 installation of license plate recognition cameras to monitor offenders. This was due to zero weighting (not reporting) the indicator. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 0%.

Spatial development analysis and rationale

Percentage of inspections conducted on building construction

38. The planned achievement for 100% of Percentage of inspections conducted on building construction was misstated as the evidence provided indicated 96% and not 100% as reported.

39. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of 100% of inspections conducted on building construction. Consequently, I was unable to determine whether any adjustments were required to the reported achievement of 100%.

Local economic development

40. I did not identify any material findings on the usefulness and reliability of the reported performance information for the following objectives:

- Local economic development

Achievement of planned targets

41. Refer to the annual performance report on pages 29 to 114 for information on the achievement of planned targets for the year and explanations provided for the underachievement of a number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraphs 33 to 45 of this report.

Report on audit of compliance with legislation

Introduction and scope

42. In accordance with the PAA and the general notice issued in terms thereof I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

43. The material findings on compliance with specific matters in key legislations are as follows:

Annual financial statements

44. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirement of section 122 of the MFMA. Material misstatements of non-current assets, current assets, revenue, payables, provisions, receivables, VAT receivables, cash and cash equivalents, operating lease, cashflow statement, statement of changes in net assets and disclosure items identified by auditors in the submitted financial statements are not yet corrected resulted in the financial statements receiving a qualified audit opinion.
45. The oversight report adopted by the council on the 2015-16 annual report was not made public, as required by section 129(3) of the MFMA.

Expenditure management

46. Effective steps were not taken to prevent unauthorised as well as fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
47. Effective steps were not taken to prevent irregular expenditure amounting to R64 535 003, as required by section 62(1)(d) of the MFMA. The majority of the disclosed irregular expenditure was caused by the evaluation and adjudication criteria applied in evaluating and adjudicating bids, the bid adjudication committee decided to award the bids to someone other than the one recommended by the bid evaluation committee and awards being made to suppliers not receiving the highest points without objectionable and reasonable basis for the deviation.

Liability management

48. The Municipality incurred debt that was denominated in a currency other than the Rand and was affected by fluctuations in the value of the Rand against foreign currencies, in contravention of section 47(a) of the MFMA.

Revenue Management

49. An adequate management, accounting and information system which accounts for revenue and receipts of revenue was not in place, as required by section 64(2)(e) of the MFMA.
50. An effective system of internal control for revenue was not in place, as required by section 64(2)(f) of the MFMA.

Procurement and contract management

51. Some of the goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, in contravention of SCM regulation 17(a) and (c). Similar non-compliance was also reported in the prior year.
52. Some of the quotations were accepted from bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c). Similar non-compliance was also reported in the prior year.
53. Some of the goods and services of a transaction value above R200 000 were procured without inviting competitive bids, as required by SCM regulation 19(a). Similar non-compliance was also reported in the prior year.
54. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of SCM regulation 27(2)(a).

Similar non-compliance was also reported in the prior year. This non-compliance was identified in the procurement processes for the EMLM 20/2016 - Provision of short term insurance & risk services.

55. Some of the contracts were awarded to bidders based on points given for criteria that differed from those stipulated in the original invitation for bidding and quotations, in contravention of SCM regulations 21(b) and 28(1)(a) and the Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the EMLM 02/2014/PH1D - Kgoshi Rammupudu construction of access road and storm water control and EMLM 13/2015/MSF - The upgrading of Monsterlus stadium.
56. Some of the contracts were made to bidders other than those recommended by the bid evaluation committee without ratification by the accounting officer, as required by SCM regulation 29(5)(b). This non-compliance was identified in the procurement processes for the EMLM 04/2015 P2 - Construction of Kanaal and Klip street & storm water, EMLM 02/2014/PH1D - Kgoshi Rammupudu construction of access road and storm water control and EMLM 13/2015/MSF - The upgrading of Monsterlus stadium.
57. Some of the contracts were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act and Preferential Procurement Regulations. This non-compliance was identified in the procurement processes for the EMLM 04/2015 P2 - Construction of Kanaal and Klip street & storm water, EMLM 02/2014/PH1D - Kgoshi Rammupudu construction of access road and storm water control and EMLM 13/2015/MSF - The upgrading of Monsterlus stadium.
58. Bid documentation for procurement of commodities designated for local content and production, did not stipulate the minimum threshold for local production and content as required by Preferential Procurement Regulation 9(1). This non-compliance was identified in the procurement processes for the procurement of protective clothing.
59. Commodities designated for local content and production, were procured from suppliers who did not submit a declaration on local production and content as required by Preferential Procurement Regulation 9(1). This non-compliance was identified in the procurement processes for the procurement of protective clothing.
60. Awards were made to providers who were in the service of the municipality, in contravention of section 112(j) of the MFMA and SCM regulation 44. Furthermore, the provider failed to declare that he/ she was in the service of the municipality, as required by SCM regulation 13(c). Similar non-compliance was reported in the previous year and the municipality did not take disciplinary action against the suppliers/ officials involved.
61. Awards were made to providers who were in the service of other state institutions or whose directors/ principal shareholders were in the service of other state institutions, in contravention of MFMA 112(j) and SCM regulation 44. Similar awards were identified in the previous year and no effective steps were taken to prevent or combat the abuse of the SCM process, as required by SCM regulation 38(1).
62. Persons in the service of the municipality who had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in contravention of SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act and the code of conduct for staff members issued in terms of the Municipal Systems Act.
63. Persons in service of the municipality whose close family members had a private or business interest in contracts awarded by the municipality failed to disclose such interest, in

contravention of SCM regulation 46(2)(e), the code of conduct for councillors issued in terms of the Municipal Systems Act and the code of conduct for staff members issued in terms of the Municipal Systems Act.

Fraud and consequence management

64. Losses resulting from unauthorised expenditure were not recovered from the liable person, as required by section 32(2)(a) of the MFMA.

Other information

65. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report which includes the audit committee's report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported in the auditor's report.
66. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
67. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
68. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate, however, if it is corrected this will not be necessary.

Internal control deficiencies

69. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report

Leadership

70. Oversight responsibility regarding financial and performance reporting and compliance and related internal controls was not exercised.
71. Review and monitoring of the financial and performance reporting by the accounting officer was inadequate. This resulted in the annual financial statements and the annual performance report containing material misstatements.

72. The action plan developed by the municipality did not address internal and external audit findings to ensure that root causes for audit findings are resolved.
73. Instances of unauthorised, irregular and fruitless and wasteful expenditure were not investigated and effective and appropriate disciplinary steps were not taken against officials who made and/ or permitted this expenditure.

Financial and performance management

74. Regular and accurate financial and performance reporting for the prevention and detection of misstatements to the financial statements does not take place.
75. There was a lack of adequate controls over compliance monitoring and information technology systems that is affecting program change, user account service continuity and backups.
76. Controls over daily and monthly processing and reconciling of transactions were not adequately monitored by the accounting officer.
77. The municipality did not have a proper system of record management and an approved record classification system that provides for the maintenance of information that supports the financial statements and reported performance contained in the annual performance report. This includes information that relates to the collection, collation, verification, storing and reporting of actual performance information.
78. The accounting officer did not adequately review and monitor compliance with laws and regulations resulting in numerous non-compliance findings.

Governance

79. Those charged with governance did not provide adequate oversight over the effectiveness of the internal control environment, including financial and performance reporting and compliance with laws and regulations.

Auditor General
Polokwane

30 November 2017



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Elias Motsoaledi Local Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may

reasonably be thought to have a bearing on my independence and here applicable, related safeguards.